

# Summary of submissions

Options for promoting retail competition by increasing consumers' propensity to compare and switch retailers discussion paper

17 July 2013

## Introduction

1. The Retail advisory group (RAG) is considering options for promoting retail competition by increasing consumers' propensity to compare and switch retailers.
2. On 9 April 2013 the RAG published a consultation paper on its review of options for promoting retail competition by increasing consumers' propensity to compare and switch retailers (consultation paper).
3. The consultation paper sought feedback on issues including ways to measure consumers' propensity to switch and compare retailers; the nature of the problems requiring regulatory intervention to promote to consumers the benefits of comparing and switching retailers; and options for actions the Authority might take after April 2014 once funding arrangements for the Consumer Switching Fund (CSF) and the What's My Number (WMN) campaign are scheduled to end.
4. This paper provides a summary of the views and points raised by submitters in submissions.

## Submissions

5. The Authority received 9 submissions, as detailed in Table 1 below.

**Table 1 List of parties making submissions**

Retailers	Others
Contact	Domestic Energy Users' Network (DEUN)
Genesis	Dunedin Community Law Centre (DCLC)
Meridian	Orion
Mighty River Power (MRP)	Pioneer Generation (Pioneer)
TrustPower	

## Summary of feedback in submissions

6. This section provides a summary of the key comments and themes in submissions:
  - a) the Authority's theoretical outcomes that would be expected from a competitive retail market are broadly reasonable
  - b) the selected performance metrics for the preliminary assessment are broadly reasonable although some revisions to performance metrics would improve the assessment

- c) WMN initiatives probably contributed to enhanced levels of retail competition since 2009 although the exact level of impact that WMN initiatives had is difficult to accurately quantify
- d) further work to enhance retail competition is necessary, such as research around understanding the barriers facing particular market segments and understanding how these sectors could be effectively targeted
- e) given the enhanced levels of retail competition since 2009, there are diminishing returns in continuing the WMN program as-is
- f) the retail market would benefit from more targeted initiatives for promoting to consumers the benefits of comparing and switching retailers after April 2014
- g) measuring product innovation and proliferation may be problematic although it is a useful measure of retail competition in a maturing retail market
- h) a robust cost benefit analysis would be difficult to prepare and would have limited application in determining the impact of future WMN initiatives although an estimate of the costs of any future initiatives is essential.

**The Authority's theoretical outcomes that would be expected from a competitive retail market are broadly reasonable**

7. In order to inform the RAG of appropriate performance measures for WMN, the RAG identified the following six theoretical outcomes that would be expected from a competitive retail market where the benefits of comparing and switching retailers have been effectively promoted:
  - a) consumers consider that they are able to compare the various retail offerings available
  - b) consumers are increasingly willing to switch retailers
  - c) consumers perceive that there are benefits in switching retailers
  - d) there is an increased level of switching, at least while savings available from switching remain high
  - e) retailers have reacted by improving their retail offerings
  - f) there are new retailers entering the market, taking advantage of the reduced costs of entry caused by improved levels of awareness around switching.
8. Many submitters commented on the Authority's six theoretical outcomes that would be expected from a competitive retail market where the benefits of comparing and switching retailers have been effectively promoted. On balance, submitters considered that most of the theoretical outcomes were broadly reasonable while some submitters suggested alterations to the outcomes or submitted on new outcomes.

9. Contact agreed *"in principle with the theoretical outcomes expected from a competitive retail market"*. However it cautioned *"against drawing specific cause and effect relationships between some of the metrics mentioned"*.<sup>1</sup>
10. Genesis also broadly agreed with the outcomes, but had reservations with the reference to *"an increased level of switching where savings available from switching remain high"* as it considered *"actual switching is not necessarily a good indicator of competitive retail market outcomes"*.<sup>2</sup>
11. DEUN broadly agreed that there *"would be new entrants, and would expect some longer term gains in price reductions"*.<sup>3</sup>
12. Meridian considered that a competitive market could in theory be expected to deliver the following outcomes, which appears to be partially consistent to the Authority's outcome f):
  - a) declining market shares amongst incumbents when they are priced higher than competitors
  - b) declining market concentration
  - c) changes in numbers of retailers.<sup>4</sup>
13. MRP agreed with outcomes a), d), and e), while it disagreed with outcomes b), c), and f). MRP considered that *"willingness to switch is not necessarily a strong measure of competition. High levels of competition may eventually render a state where consumers feel that they don't need to switch retailers"*. MRP also considered *"consumers should have the perception that the benefit lies in their ability to compare retailers, not necessarily in making a switch"*.<sup>5</sup>
14. MRP suggested *"introduction of new product offerings by existing retailers should be considered as equally beneficial to competition as the entry of new retailers"*.<sup>6</sup>
15. Orion considered that *"care needs to be taken that we do not set an unreasonably high standard for the retail electricity market. The applicable standard is workable competition, and the retail electricity market does not need to display all of the features of all other 'competitive' retail markets"*.<sup>7</sup>

**The selected performance metrics for the preliminary assessment are broadly reasonable although some revisions to performance metrics would improve the assessment**

16. Drawing on the expected outcomes, and considering what is actually practicable to measure and analyse, the RAG considered that the following metrics should be used to conduct its

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<sup>1</sup> Contact, p. 3

<sup>2</sup> Genesis, p. 5

<sup>3</sup> DEUN, p. 2

<sup>4</sup> Meridian, p. 3

<sup>5</sup> MRP, p. 3

<sup>6</sup> MRP, p. 3

<sup>7</sup> Orion, p. 4

preliminary assessment to assess whether the CSF and other initiatives have sufficiently addressed the issues identified in 2009:

- a) the number of visitors to the WMN and Powerswitch websites
  - b) changes in consumer attitudes and awareness in relation to switching electricity retailers and the competitiveness of the retail market, reflected in survey evidence undertaken as part of the WMN campaign
  - c) consumer switching rates, relative to average savings available from switching (total number of switches each year and the average savings available from switching)
  - d) changes in retailer market shares and concentration, measured by changes in percentages of the retail market held (ICPs and MWh, by area), and changes in HHI
  - e) changes in the number of retailers in the market, particularly at the regional level.
17. Most submitters commented on RAG's selection of performance metrics. On balance, submitters supported the metrics although most submitters suggested adjustments to suggested metrics or proposed new metrics to improve the robustness of the RAG's preliminary assessment.
18. DEUN considered *"that there needs to be some measure of cost of electricity included in any evaluation of the effectiveness of the Consumer Switching fund. This could be: Price trends, by region, trends in retail overheads, trends in retail profits (after allowing for some return on recent investment)."*<sup>8</sup>
19. DEUN submitted that retail markets are differentiated not only by region, but residential consumer characteristics.<sup>9</sup>
20. Genesis provided comments in relation to the RAG's chosen performance metrics a) through d).
- a) Genesis agreed that the number of website visitors provides an indication of consumers' propensity
  - b) Genesis also agreed that surveys of consumer attitude and awareness are an apt measure, but that surveys should focus on the reasons for not switching.
  - c) Genesis submitted that the rate of switching *"does not provide a good indication of propensity to switch going forward"*. According to Genesis, consumers may choose not to switch for a range of valid reasons<sup>10</sup>
  - d) Genesis submitted that when using retailer shares and concentration as a measure, it is important to differentiate between the entry of niche retailers and new competitors.<sup>11</sup>

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<sup>8</sup> DEUN, p. 2

<sup>9</sup> DEUN, p. 2

<sup>10</sup> Genesis covering letter, p. 2

<sup>11</sup> Genesis answers to questions, p. 2

21. Genesis noted the RAG's reference to "sticky" consumers in terms of future target groups suggested a focus on consumers who do not switch. Genesis submitted that it is important that this reference is changed to consumers 'with a low propensity to switch'.<sup>12</sup>
22. Genesis also submitted that, in relation to standard products vs non-standard products, it is difficult to define non-standard products because of the number of variants.
23. Similar to Genesis, MRP supported metrics a) and b). Unlike Genesis it also supported c)<sup>13</sup>, but disagreed with d) on the basis that, in a market where the *"gentailer model is prevalent, market share dynamics can be distorted by other factors including portfolio decisions and risk"*.<sup>14</sup> However, MRP submitted that the Authority's HHI index to some extent gauges the increased level of competition across regions.<sup>15</sup>
24. MRP agreed with metric e) although it submitted that a retailer having ICP's in a territory should not necessarily be interpreted as being in the market and that activity level in any territory is a better indicator.
25. MRP also suggested additional the performance indicators *"changes in consumer attitudes towards and awareness of service differentials"* and *"the proliferation and update of new retail product offerings"*.<sup>16</sup>
26. In a broad sense, Meridian considered the *"RAG's assessment most likely addresses what is practicable to analyse"*.<sup>17</sup> Meridian also submitted that *"most of the metrics chosen by the RAG are appropriate for assessing the campaign's effectiveness"*.<sup>18</sup>
27. However, Meridian advised of its concern *"that one implication of adopting the specified metrics is that they may detract from the value of a parallel focus on energy usage and optimisation"*.<sup>19</sup>
28. TrustPower submitted that 'the number of switches' is only one indicator of how competitive a market is. According to TrustPower, the development of new and innovative product offerings, increased focus on customer needs, and improved customer service are all further indicators of a competitive market.<sup>20</sup>
29. Pioneer submitted that *"the price of a product is important but should not be the only focus"*. Pioneer also submitted that *"the survey result information provided in the discussion paper is insightful"*. Pioneer queried *"whether RAG/Authority could expect the (survey) results to be any higher than positive responses of over 70%"*.<sup>21</sup>

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<sup>12</sup> Genesis covering letter, p. 3

<sup>13</sup> Although it submitted that "Move switch" data should be excluded from measurement statistics" as it doesn't represent actual switching

<sup>14</sup> MRP, p. 4

<sup>15</sup> MRP, p. 4

<sup>16</sup> MRP, p. 4

<sup>17</sup> Meridian, p. 6

<sup>18</sup> Meridian, p. 3

<sup>19</sup> Meridian, p. 3

<sup>20</sup> TrustPower, p. 1

<sup>21</sup> Pioneer, p. 2

30. Contact submitted that the measure of the average increase of retailers across regions appears meaningless as the data set is so small.<sup>22</sup> Furthermore, Contact pointed out that “in highly competitive markets where margins are constrained, consolidation is more likely to occur than expansion”.
31. Contact further submitted that “*HHI can be used as an indicator of competitiveness as it appears to bring together two types of behaviour: both consumers’ preparedness to switch and retailers actively putting offers into specific markets*”.<sup>23</sup>
32. Contact also suggested that the delta in switching following ‘What’s my number?’ (WMN) could be seen as an adequate proxy for measuring the success of WMN.<sup>24</sup>

**WMN initiatives probably contributed to enhanced levels of retail competition since 2009 although the exact level of impact that WMN initiatives had is difficult to accurately quantify**

33. The RAG's preliminary analysis based on the measures identified, indicated that:
  - a) there is, at least comparatively, a large volume of visitors to the WMN website during WMN advertising campaigns
  - b) levels of consumer awareness of the ease of switching and the benefits of switching have increased, but awareness that it is possible to switch retailers was already relatively high to begin with and had remained unchanged
  - c) market concentration across New Zealand has reduced, and there has been a small downward trend in ‘major’ retailer market shares (but this trend commenced in 2008)
  - d) levels of consumer switching have increased (but this trend was evident from 2006)
  - e) retailer entry has taken place across all regions, although some regions, particularly Auckland have seen more new retailers than others.
34. The preliminary assessment indicated that overall the WMN campaign *probably* contributed to promoting to consumers the benefits of comparing and switching retailers during the first period of the campaign. However, the RAG had not reached a conclusion on the specific economic benefit resulting from the WMN campaign, that is, the size of the benefits from the campaign – this is due to attribution problems. The RAG considered that the WMN campaign has been partially responsible for these observed market outcomes, but notes that concurrent policy measures designed to support retail competition will have also contributed to the propensity of consumers to compare retailers.
35. Many submitters commented on the RAG’s preliminary assessment of the performance of the WMN campaign and CSF. In general, submitters agreed with the preliminary assessment. In particular submitters agreed that it was difficult to accurately quantify the

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<sup>22</sup> Contact, p. 3

<sup>23</sup> Contact, p. 3

<sup>24</sup> Contact, p. 3

performance of WMN and CSF but noted that the initiatives had likely made a positive impact on competition in the retail electricity market.

36. For example, Pioneer concurred with the RAG *“that it is difficult to measure the success of the Consumer Switching Fund (CSF) initiatives when there have been other initiatives implemented over time by the Authority and industry participants that can be assumed to contribute to consumers’ comparing and switching retailers”*.<sup>25</sup>
37. This view was shared by Meridian whom submitted that it *“is important that concurrent initiatives and market developments, for instance, in the hedge market are considered and that market trends are not improperly attributed to the effects of the campaign”*.<sup>26</sup>
38. MRP submitted that the *“preliminary assessment is reasonable”*<sup>27</sup> and that *“in our view, the level of competition has increased substantially in key regional markets as well as the metropolitan centres where competition has always been strongest”*.<sup>28</sup> Contact similarly submitted *“we consider the RAG’s assessment of effectiveness as reasonable”*.<sup>29</sup>
39. According to DCLC, *“the extent to which power switching and price comparison has become a routine consumer practice can be seen in the workplace smoko room and at the school gate where it is now a commonly discussed topic”*. DCLC further commented that *“the existing What’s My Number and Powerswitch campaigns have been effective in raising awareness among middle-income New Zealanders about market competition and cheaper electricity price deals”*.<sup>30</sup>
40. According to TrustPower, the CSF and WMN campaign *“have successfully highlighted to consumers their ability to switch power providers and the savings that can be accomplished in doing so”*. TrustPower further noted that *“the success of the switching campaign is reflected in the statistics”* although it qualified this statement by noting that *“the number of switches is only one indicator of how competitive a market is”*.<sup>31</sup>
41. TrustPower submitted that *“in recent years we have seen a number of new entrants to the market, each focusing in a particular niche. This is likely to continue”*.<sup>32</sup>
42. Genesis submitter that the paper *“does not appear to directly assess the current position against the specific 2009 issues”*, although it also considered that the *“broader survey results / metrics provide some relevant insights”*.<sup>33</sup>
43. DEUN submitted that *“the WMN campaign has been useful in sharpening the focus on the price of energy services, and has put some pressure on retailers”*.<sup>34</sup>

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<sup>25</sup> Pioneer, p. 1

<sup>26</sup> Meridian, p. 3

<sup>27</sup> MRP, p. 5

<sup>28</sup> MRP, p. 4

<sup>29</sup> Contact, p. 5

<sup>30</sup> DCLC, p. 2

<sup>31</sup> TrustPower, p. 1

<sup>32</sup> TrustPower, p. 1

<sup>33</sup> Genesis, p. 6



44. Meridian supported *“the RAG’s overall conclusion that the campaign has contributed positively in terms of promoting active consideration of comparing and switching retailers, even though its precise impact on retail competition is difficult to determine”*.<sup>35</sup>
45. As an example, Meridian submitted that it was *“unsure movements in market share, retailer concentration, and retailer entry can be attributed to the effects of the WMN campaign in favour of developments in the hedge market”*.<sup>36</sup>

**Further work to enhance retail competition is necessary, such as research around understanding the barriers facing particular market segments and understanding how these sectors could be effectively targeted**

46. The RAG queried whether changes could be made to the delivery of the current CSF programmes to promote to consumers the benefits of comparing while delivering value for money. Post April 2014, the RAG considered that the Authority could:
- a) continue with the WMN residential and small business campaigns and associated CSF programmes as is, with an equivalent annual budget funded via the levy
  - b) allow the WMN campaign and associated initiatives to end
  - c) identify another party to promote to consumers the benefits of comparing retailers
  - d) cease all CSF programmes but keep a watching brief and reinstate programs if consumers' propensity to compare (based on specified measures) declines to some pre-specified level
  - e) modify the nature of the WMN campaign, such as by targeting the campaign to regions where there is a low propensity for consumers to compare retailers.
47. Most submitters commented on further options the Authority might take after April 2014. Many submitter views were that there are diminishing returns in continuing with the WMN campaign as-is and that the retail market would benefit from the increased targeting of regions, times of the year, or consumer groups. These submitter views will be explored in the following two sections while submitter requests or suggestions for non-targeting related initiatives are provided in the next section. Submitters recommended a range of future activities, such as educational initiatives around increasing public awareness of the electricity sector as a whole or further independent research. These submitter points are discussed in greater detail below.

**Education of consumers**

48. MRP submitted that the Authority should *“strongly consider either utilising some material part of the existing CSF funding or the creation of a separate fund to further the objective of educating consumers as to the positive aspects and realities of the NZ electricity industry”*. MRP advised the Authority that there is an *“information gap”* and submitted that the *“the*

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<sup>34</sup> DEUN, p. 4

<sup>35</sup> Meridian, p. 1

<sup>36</sup> Meridian, p. 5

*Authority needs to address itself to public education of the industry and that this is consistent with all CRE requirements”.*<sup>37</sup>

#### **Further research**

49. Many parties submitted that the Authority needed to conduct further research. For example, DEUN submitted that there is a *“need for further research into residential electricity consumer’s needs and their current experiences”*, particularly looking at *“measures to support choice and active participation in the market for low income and vulnerable consumers”*. DEUN noted that *“this could include research into the current barriers facing these groups”*.<sup>38</sup> DEUN submitted that consumer surveys should *“go beyond awareness and measure satisfaction with the switching experience”*.<sup>39</sup> The types of questions DEUN envisages are: *whether consumers are “on pre-pay and if so are they able to switch? Are they medically dependent, have such customers switched? Do people with poor credit ratings have any options for switching?”*<sup>40</sup>
50. Genesis also proposed further research, submitting that independent research be undertaken to ascertain *“the extent to which consumer groups or regions should be targeted from 2014 if at all (in order to minimise any adverse and unnecessary adverse impacts on competition in the retail market); and obtaining insights for a further review, say in 2016 (given the risk that the cost to consumers will outweigh the benefits)”*.<sup>41</sup>
51. Genesis submitted that *“the metrics used by the RAG, and the underlying surveys, do not address consumers reasons for not switching. We consider that it is critical for this to be addressed in surveys going forward”*.<sup>42</sup>

#### **Broadening of information provided by on-line tools**

52. Meridian supported the *“broadening online tools like the ‘What’s my number’ website to provide information on customer satisfaction rates and other wider aspects of retailer offerings”*.<sup>43</sup>
53. Meridian also suggested the websites provide *“information on other ‘non-price’ aspects of retailer offerings to assist consumers in assessing their choices. Other aspects we would suggest are incorporated are customer satisfaction rates, statistics on EGCC complaints, and degree of alignment with the Authority’s “Minimum terms and conditions for domestic electricity contracts”*.<sup>44</sup>

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<sup>37</sup> MRP, p. 7

<sup>38</sup> DEUN, p. 3

<sup>39</sup> DEUN, p. 1

<sup>40</sup> DEUN, p. 2

<sup>41</sup> Genesis, p. 2

<sup>42</sup> Genesis, p. 2

<sup>43</sup> Meridian, p. 2

<sup>44</sup> Meridian, p. 8

### Other initiatives

54. Contact submitted that the Authority should develop a *“standard industry definition of what constitutes a product – is it a tariff, a payment option or a physical product that delivers heat? Contact considered that “unless there is standardisation, measurement will be difficult and may be unable to provide the insight that the RAG requires”.*<sup>45</sup>
55. Contact also submitted that it *“could be beneficial for the RAG to develop an improved understanding of the costs incurred through higher levels of switching through increasing costs of acquisition, which are ultimately, in some form, passed through to the consumer”.*<sup>46</sup>
56. DCLC submitted that it *“would like to see more information on the contractual side of power switching”.* DCLC stated that there needed to be a greater understanding around barriers to switching caused by hidden clauses such as bonds and exit fees.<sup>47</sup>
57. Meridian submitted that policy measures should be adapted to take account of *“market developments concerning “smart tariffs” and plans that are more closely tailored to individual usage patterns”.*<sup>48</sup> Pioneer similarly submitted that the RAG/Authority should consider the impact *“of the continuing roll-out of smart meters and the new services that are being offered using the consumption information”.*<sup>49</sup>

### Given the enhanced levels of retail competition since 2009, there are diminishing returns in continuing the CSF program as-is

58. The RAG considered that it lacks evidence to suggest that there is an embedded behaviour or attitude meaning that consumers will treat electricity like other goods and services and routinely compare and switch their retailer. On the other hand, the RAG considered that given it appeared that more than a high portion of consumers know they can switch retailers and believe it is easy to switch, it is possible to argue that the Authority should play no further role in promoting switching, unless surveys indicated these statistics were falling. The RAG sought views on whether the Authority should continue the CSF program as-is after April 2014.
59. TrustPower submitted that it believed that *“retailer-led activity will likely be the cause of the majority of switching activity in the future”.* TrustPower also considered that the Authority *“obviously has a key role to play in ensuring this is able to occur”.*<sup>50</sup>
60. Contact submitted that the modifications to the CSF suggested by the Authority are *“unlikely to further enhance competition in what already appears to be a highly competitive market”.*<sup>51</sup>

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<sup>45</sup> Contact, p. 5

<sup>46</sup> Contact, p. 5

<sup>47</sup> DCLC, p. 4

<sup>48</sup> Meridian, p. 8

<sup>49</sup> Pioneer, p. 2

<sup>50</sup> TrustPower, p. 1

<sup>51</sup> Contact, p. 6

61. MRP submitted that *“the law of diminishing returns may now be applying to CSF initiatives as they currently exist”*.<sup>52</sup>
62. Meridian submitted that it considered *“a more targeted approach will improve the cost effectiveness of the programme”*.<sup>53</sup>

### **The retail market would benefit from more targeted initiatives for promoting to consumers the benefits of comparing and switching retailers after April 2014**

63. The RAG considered that the option of continuing with the CSF programmes in a more targeted way would seem the most prudent and worthwhile option for the Authority to undertake in the future. For example, rather than funding multi-month mass-market media campaigns, the Authority could initiate more targeted awareness programs:
- a) commissioning independent research from parties such as ConsumerNZ or Roy Morgan for additional insights into retail electricity market consumers
  - b) targeting 'stickier' consumer segments that are more averse to switching, and highlighting the possible savings and ease of switching to older or lower-income consumers, or targeting consumers who may be open to innovative product offerings such as metering options, time of use tariffs, or buy-back rates
  - c) focusing to a greater extent on those particular times of the year (such as when price changes occur or prior to commencement of winter) when electricity retailer choice might be considered by consumers and remind consumers of the freedom to choose retailers and the merits of comparing retailers
  - d) targeting consumers in those regions where competitive pressures have been identified as being lower (generally regional markets) rather than taking a 'broad brush' approach and targeting all geographic markets.

### **General comments around targeting**

64. Meridian submitted that it *“supports the general direction of the RAG’s (increased targeting) approach”*.<sup>54</sup> Meridian also preferred a *“phased approach involving, as a first step, consumer research that can then be used to design targeted awareness campaigns”*. Meridian considered *“this research could involve commissioning further independent research, for instance from parties such as Consumer NZ or Roy Morgan, like the RAG have suggested, ‘focus group’ type sessions facilitated by the Authority or an independent party, or a combination of the two”*.<sup>55</sup>
65. However, Pioneer submitted that *“the discussion paper does not provide convincing evidence to support any of the proposed ‘more targeted awareness programmes’”*.<sup>56</sup>

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<sup>52</sup> MRP, p. 8

<sup>53</sup> Meridian, p. 1

<sup>54</sup> Meridian, p. 1

<sup>55</sup> Meridian, p. 6

<sup>56</sup> Pioneer, p. 2

Pioneer requested further research be undertaken during 2013, before making any decisions on the future of the CSF programme, and that the RAG/Authority should assess the impact of considerably reducing the level of advertising. Pioneer also submitted that expert advice should be sought on *“how to manage the ‘brand’ of WMN”*.<sup>57</sup>

66. Contact appeared to partially share Pioneer’s view above, submitting that *“market behaviour would suggest that without significant maintenance in the WMN brand through media spend, that brand awareness could decrease”*.<sup>58</sup> Contact also submitted that *“allowing the Consumer Switching Fund (CSF) programme to become more targeted appears to be a sensible set of options for a maturing programme”*.<sup>59</sup>
67. Genesis had reservations about targeting consumers by region, submitting that this would create a greater risk of distorting competitive market outcomes.<sup>60</sup> However, Genesis supported *“targeting consumers with lower propensity to compare and switch but only where further research is undertaken which clearly identifies these groups”*.<sup>61</sup>
68. Genesis also submitted that it agreed that campaigns could run at certain times of the year rather than across the year.
69. On the whole, Genesis submitted that CSF activities should be more restricted and on a lower cost basis than under the current CSF and WSN campaign.<sup>62</sup>

#### **Targeting of lower income consumer segments**

70. DCLC submitted that campaigns to date had been *“targeted at a specific demographic (middle-income New Zealanders) and we believe that they have reached saturation point”*. DCLC considered that campaigns should now look to focusing on the elderly, disabled people, students and vulnerable consumers, who feel the impact of high electricity costs. According to DCLC this could *“break down the barriers faced by low income, vulnerable and elderly consumers in accessing cheaper power”*.<sup>63</sup>
71. Similarly, MRP submitted that it agreed that there should be targeting of the *“segments of consumers who need more help to understand their options with respect to retailer, pricing and service levels”*.<sup>64</sup>
72. Meridian submitted that, in seeking value for money (CSF and WMN) initiatives, *“this may suggest, at least in the first instance, a focus on lower income consumers”*.<sup>65</sup>
73. Relevant to arguments around the targeting of consumer segments, DEUN submitted that *“if it can be shown that WMN is leading to a significant reduction, or constraint on rises, of*

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<sup>57</sup> Pioneer, p. 2

<sup>58</sup> Contact, p. 6

<sup>59</sup> Contact, p. 5

<sup>60</sup> Genesis, p. 8

<sup>61</sup> Genesis, p. 8

<sup>62</sup> Genesis, p. 2

<sup>63</sup> DCLC, p. 2/3

<sup>64</sup> MRP, p. 6

<sup>65</sup> Meridian, p. 9

*power prices for more than the “easiest-to-serve” consumers, then continuing funding though the levy may be worthwhile”.*<sup>66</sup> DEUN also submitted that *“an important issue is that some consumers do not have computers, which immediately excludes them from the most cost-effective tariffs”.*<sup>67</sup>

### **Measuring product innovation and proliferation may be problematic although it is a useful measure of retail competition in a maturing retail market**

74. The RAG considered that in a competitive market it could be expected that retailer innovation would increase and that product offerings would flourish. Accordingly, the RAG expected that if the CSF was performing as intended and promoting the benefits of comparing and switching retailers, there should be increased retailer product innovation and proliferation in New Zealand's retail electricity market.
75. The RAG considered that the level of retailer innovation and proliferation is largely a qualitative consideration and therefore difficult to measure. However quantitative measures such as a snapshot of the number of products offered in the market or the number of product categories or consumer segments were considered to be useful in providing an indication of retailer innovation and proliferation.
76. The Authority does not currently collect and maintain information on the number of products offered in the retail market although it considered that it could request this information from retailers. Given that distributor charges, which are passed on to retailers, differ significantly by region, if this information were to be collected, the RAG considered that it would perhaps be best analysed on a region-by-region basis.
77. DEUN submitted that *“innovations that would mean most to domestic consumers are mechanisms to enable total power bills to be reduced by consumers willing to either shift timing of their load, or to invest in energy efficiency measures”.*<sup>68</sup>
78. MRP submitted that it was necessary to consider whether *“these products have made consumers feel “better off” or created “value” in their mind. The research should not be based on a premise of simple reduction in energy cost but needs to consider the non-financial benefits the customer values”.* MRP considered that product innovation and proliferation could be measured by *“surveying retailers to define the scale of their ratecard and its relative growth. i.e. growth in the number of rates available is an indication of choice, to some extent”.*<sup>69</sup>
79. Meridian agreed that *“product proliferation and innovation should be investigated with our own research suggesting reasonable uptake amongst Meridian customers of ‘non-standard’ types of products”.*<sup>70</sup>

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<sup>66</sup> DEUN, p. 2

<sup>67</sup> DEUN, p. 4

<sup>68</sup> DEUN, p. 1

<sup>69</sup> MRP, p. 5

<sup>70</sup> Meridian, p. 1

80. In order to measure product proliferation and innovation, Meridian suggested the RAG/Authority consider *“a requirement similar to that which applies for retailers in Australia and other jurisdictions... to publish information on all products offered...would be a useful first step”*.<sup>71</sup>
81. Contact submitted that measuring product innovation and proliferation may not be meaningful *“unless it is applied to consumer segments – be they demographic or behavioural. For example, what consumer needs is the product innovation responding to?”*<sup>72</sup>
82. Genesis Energy agreed that product innovation may be an indicator of retailer diversification to meet particular consumer needs. However, Genesis *“do not consider that analysis of product innovation and proliferation is a useful or practical measure”*. The reasons Genesis gave were that, it was unlikely to present a comparative result, and that only limited information is likely to be available. Genesis submitted that consumer surveys *“are a more effective way of understanding whether product innovation and proliferation is having an increasing role in the retail market”*<sup>73</sup> Genesis added that *“If product innovation and proliferation is to be used as a measure, we do not agree that this should be on a snapshot or region-by-region basis”* as *“such targeting carries greater risk of distorting market outcomes”*.<sup>74</sup>

**A robust cost benefit analysis would be difficult to prepare and would have limited application in determining the impact of future CSF initiatives although an estimate of the costs of any future initiatives is essential**

83. The RAG considered undertaking a quantitative assessment of the net benefits of the proposals outlined in its consultation paper. However, the RAG considered that a quantitative assessment would rely on a significant number of assumptions that are difficult to prove or disprove, particularly about the quantum of the potential benefits of promoting to consumers the benefits of comparing and switching retailers.
84. The RAG considered that the cost estimates for future initiatives could be determined once the Authority determined its approach to targeting consumers or regions, with the choice of advertising medium (if any) considered particularly relevant to the degree of cost.
85. Genesis submitted that it *“agrees that it is difficult to assess the need for continuing a campaign”*.<sup>75</sup> Genesis further submitted that *“if a cost benefit analysis is to be undertaken, this should be over the whole retail market or not at all”* and that *“a trial and error approach is unlikely to be of any real value”*.<sup>76</sup>
86. Contact submitted that, *“given the RAG’s own admission of the difficulties of measuring the effectiveness and impact of the switching campaign, we believe that a cost benefit analysis*

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<sup>71</sup> Meridian, p. 6

<sup>72</sup> Contact, p. 4

<sup>73</sup> Genesis, p. 3

<sup>74</sup> Genesis, p. 4

<sup>75</sup> Genesis, p. 8

<sup>76</sup> Genesis, p. 9

*is not required as it is likely the results will not add anything substantive to the debate”.*<sup>77</sup>  
MRP similarly agreed that a cost benefit analysis would not be required.<sup>78</sup>

87. DEUN had a different view to Contact and MRP, submitting that *“if the campaign is to continue, a cost-benefit analysis should be undertaken”*.
88. Meridian submitted that while it agreed with the Authority’s approach to the requirement for a cost benefit analysis, a *“thorough analysis of the costs of potential future initiatives will be essential”*.<sup>79</sup>

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<sup>77</sup> Contact, p. 7

<sup>78</sup> MRP, p. 8

<sup>79</sup> Meridian p. 9